

Service Date: September 15, 1987

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application)	
of MOUNTAIN WATER COMPANY for)	UTILITY DIVISION
Authority to Increase Rates and)	DOCKET NO. 86.9.51
Charges for Water Service in the)	ORDER NO. 5252c
Missoula, Montana Service Area.)	

ORDER ON PETITION FOR RECONSIDERATION

BACKGROUND

1. On June 30, 1987, the Montana Public Service Commission (Commission) issued Order No. 5252b disposing of all matters then pending in this docket. On July 24, 1987, the Applicant, Mountain Water Company (MWC) filed a Petition for Reconsideration of the following issues;

- 1) Net Operating Loss Carryforwards (NOLS)
- 2) Post Test Year Plant Additions
- 3) Federal Income Tax Rate
- 4) Main Office Computer
- 5) Cost of Living Wage Increases

2. At a September 9, 1986, work session scheduled at the regularly held agenda of September 7, 1986, the Commission considered these issues and found no reason to modify its Order No. 5252b with respect to, NOLS, Post Test Year Plant Additions, Main Office Computer, or the Cost of Living Wage Increases. The Commission in its Order No. 5252b made specific findings relative to the aforementioned issues and is of the opinion that those findings fully address the items presented by the Applicant in its Petition for Reconsideration. The Commission, therefore, finds that the Applicant's request for reconsideration of treatment afforded

NOLS, Post Test Year Plant Additions, Main Office Computer, and Cost of Living Wage Increases should be denied.

3. The remaining item which the Applicant wanted reconsidered is the Federal Income Tax Rate recognized in Order No. 5252b. The Commission in Order No. 5252b imposed on MWC its findings from Order No. 5236c relative to the appropriate federal income tax rate. Order No. 5236c is the Commission's generic decision regarding the impact of the Tax Reform Act of 1986 on the federal tax liability that will be incurred by utilities under the provisions of that Act.

The Commission, based on the provisions of the Tax Reform Act of 1986, found in its generic decision that the appropriate tax rate for utilities on and after July 1, 1987 was 34% and this is the tax rate that was used to calculate MWC's federal income tax liability. MWC contends in its motion for reconsideration that the application of the 34% tax rate found appropriate in the generic proceeding should not be applied to MWC in this docket. MWC in its motion states that the effective federal tax rate for calendar year 1987 is 39.95%, and that the Commission's rationale in the generic decision for setting rates sufficient to cover tax expense at the 39.95% rate, if applied to MWC, does not allow MWC the opportunity to collect, through rates, sufficient monies to cover its tax liability at the 39.95% tax rate.

4. The Commission agrees with the Applicant that application of the tax rate found reasonable in the generic tax order is inappropriate for MWC because the Applicant had a pending rate application on file with the Commission. MWC should generate greater taxable income during the second half of the year; therefore, it is reasonable to allow the Applicant to calculate its tax expense utilizing the 39.95% effective rate, in an effort to insure that tax collections match tax liability.

5. On January 1, 1988, MWC's effective tax rate will be 34%. If it does not have a rate application pending with the Commission

on or before that date and an interim rate order issued, it will file decreased rates reflecting this lower cost of service. The reduced rates should be filed with the Commission no later than December 15, 1987, so that they may be made effective for services rendered on and after January 1, 1988.

6. The Applicant in its Petition for Reconsideration notes that the Commission made two (2) computational errors in its decision. Under the section entitled "Main Office Computer," the Applicant points out that the Commission in calculating the amount of computer investment that should be deducted from the Applicant's rate base did it on the basis of 100% of the new computer's cost being included in rate base. This is not the case; only 50% of the new computer's cost is included in rate base. Therefore, the Applicant is entitled to increase the rate base accepted in Order No. 5252b by \$11,014.

In the petition section entitled "Post Test Year Plant Additions" the Applicant notes a second computational error. The Applicant properly points out that the Commission in readjusting operating expenses, to back out the effect of the post test year plant adjustments, failed to add back the full amount of the estimated savings associated with those additions. The Commission increased operating expenses by \$13,325 when the amount should have been \$15,997. The Applicant is entitled, therefore, to increase operating expenses recognized in Order No. 5252b by \$2,672.

7. The Commission finds that it is reasonable for the Applicant to make the previously authorized adjustments to Order No. 5252b and to file revised rate schedules consistent with the new revenue requirement. The Applicant will provide all work papers used in developing the revised revenue requirement and revised rate schedule.

CONCLUSIONS OF LAW

1. The Applicant, Mountain Water Company, is a public utility as defined in Section 69-3-101, MCA. The Montana Public Service

Commission properly exercises jurisdiction over Applicant's rates and service pursuant to Section 69-3-102, MCA.

2. The Commission has provided adequate public notice and an opportunity to be heard as required by Section 69-3-303, MCA, and Title 2, Chapter 4, MCA.

3. The rates and rate structure approved in this order are just and reasonable. Sections 69-3-201, and 69-3-330, MCA.

ORDER

NOW, THEREFORE, IT IS ORDERED THAT:

1. Mountain Water Company shall file rate schedules which reflect the adjustments authorized herein. The increased revenues shall be generated by increasing rates and charges to all customer classifications as provided in Order No. 5252b.

2. The rates approved herein shall not become effective until approved by the Commission.

3. DONE IN OPEN SESSION at Helena, Montana, this 11th day of September, 1987, by a 3 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Ann Purcell
Commission Secretary

(SEAL)

NOTE: You may be entitled to judicial review in this
 matter. Judicial review may be obtained by filing a
 petition for review within thirty (30) days of the
 service of this order. Section 2-4-702, MCA.